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Taxation on Morals

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Honors Research Project: Proposal

(Please Print)

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Title of proposed project: Taxation on Morals

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Attach the following information to this form. Provide copies of the completed proposal to your project sponsor, your readers, and your Honors Advisor.

1. In the initial section of your proposal, describe what you intend to do. Describe the project's purpose, design, methodology, and limitations. Be specific.
2. Next, address such questions as these: What do you expect to learn from doing this project? What will be accomplished by the completion of this project? What makes it worth doing? What will be the benefits of the project for people other than yourself?
3. In a third section, describe the final presentation of the project. What will be the written product of your work on this project? If the project is to be performed or presented, what will be the occasion and the audience?

This project is approved by:

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UNIVERSITY OF AKRON

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Honors Research Project

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Introduction

"In this world nothing can be said to be certain, except death and taxes." – Benjamin Franklin. This is probably the most famous quote related to taxes in the history of the United States, although the list of such quotes could possibly be written in full on a napkin. Taxes are viewed almost unanimously in a negative light the country over, with plenty of people equating taxes to highway robbery. Of course, being an accountant, I have a new respect for the tax system and can understand its necessity. Amendment 16 of the United States Constitution lays the groundwork for the income tax system as a way to generate revenue for the country. When most of the general population thinks about taxes they think about Medicare, Medicaid, and Social Security, which generate a very negative and sometimes almost hostile response. However, raising money for the US government and its various programs is not the only role of the tax system. Another major role of taxes in the United States is to guide the behavior and, to some extent, the moral values of its citizens. It accomplishes this in ways such as offering a charitable contribution deduction, taxing alcohol and tobacco products, allowing a full depreciation of certain equipment under IRC §179, a credit for a first-time home buyer, and soil, water, and endangered species conservation expenditure deduction. There are, of course, many more ways the Internal Revenue Code tries to guide the behavior of the citizens of the United States, but the above five (5) are the topics that I am going to be focusing on in this report. My goal in looking into these areas is for you, the reader, to appreciate the tax system a little bit more and see that there is another purpose to taxation, besides revenue for the federal government.

Charitable Contribution Deduction

Rules

A taxpayer is allowed, under IRC §170, to take an itemized deduction on his or her tax return for qualifying charitable contributions. The Internal Revenue Code ("IRC") lays out regulations regarding what a charitable organization is as well as what the rules are for taking the deduction. According to IRC §170, the general rule for this deduction is that it shall be allowed as long as payment occurred within the taxable year and it was made to a qualifying charity. In order for an organization to qualify as a charity under IRC §170 it must be a gift and fall into one of five (5) categories. These categories include:

1. Being within a US state or subdivision
2. A corporation, trust, or community fund organized in the US and operated exclusively for religious, charitable, scientific, literary, or educational purposes, or sports competition, or prevention of cruelty to animals or children
3. An organization of war veterans
4. Domestic fraternal society (as long as the contribution is used for the purposes listed in 2 above)
5. A cemetery company operated for benefit of its members

There are also restrictions that determine what is and is not a gift and what can even be allowed to be a deduction. IRC §170 is very stingy in regards to what a gift is, as described by what is referred to as the "benefit rule." This rule states that a deduction cannot be claimed if something was received in exchange for the gift, meaning the donor received some benefit, hence the name. However, the rule does dictate that if the fair market value of the gift is greater than the benefit received by the donor, then the difference can be taken as a deduction (Rev. Rul. 67-246). Another stipulation is that only cash or goods donated count as a gift; services rendered for the charitable organization in question are not deductible as a charitable contribution, nor is the contribution of blood, gifts directly to the needy, or the purchase of raffle tickets (Rev. Rul. 162). The taxpayer is required to keep certain records if audited by the Internal Revenue Service (IRS) and these records differ depending on the amount donated as well as the type of property donated.

The government also differentiates between a public charity and a private foundation and treats the two very differently for tax purposes. The general rule for charitable contributions is that the deduction cannot exceed 50% of a taxpayer's adjusted gross income (AGI). This rule applies for all charities that qualify under IRC §170(c), as well as some others that count as public charities. Contributions to private foundations, however, are generally only allowed to be taken up to 30% of a taxpayer's AGI (IRC §170(b)(B)).

Moral Behavior

This example is probably the easiest way to see how the tax code tries to guide the behavior and morals of the US taxpayers. By nature, individuals are selfish and behave in a way to increase their wealth and promote their own self-interest. However, the United States was founded in the premise of generosity and helping others, even if we have to incentivize that help. By allowing donations to charity to be taken as itemized deductions on a tax return, it encourages taxpayers to give to charity. Of course, the main reason behind giving to a charitable organization should be for charity's sake and not to get personal gain out of it. However, if the IRS can help motivate people to give by giving a tax break to those who donate, it will help the charities by giving more reason to those that would donate anyway, but, more importantly, it will motivate those who may otherwise not give to charities to do so, if only to get the tax break that goes along with it.

This charitable contribution deduction has been a potential target for increasing taxes in recent years, however. An article written for the *Wall Street Journal* in 2012 argues that the charitable contribution deduction should be reduced or even eliminated. Daniel J. Mitchell (2012) writes the first portion of the article, and in it he makes the argument that "there's just no evidence that the tax break leads people to increase their giving—but it does lead them to make bad choices about giving." One of the major reasons he believes this is that the biggest beneficiaries of the charitable contribution deduction is wealthy households. Some of the statistics that Mitchell (2012) included were that "those making more than $100,000 per year taking 81% of the deduction even though they account for just 13.5% of all U.S. tax returns. The data [is] even more skewed for households with more than $200,000 of income. They account for fewer than 3% of all tax returns, yet they take 55% of all charitable deductions." These numbers show that the main beneficiary of this deduction is the wealthy, which effectively reduces the impact of the progressive tax system of the US. This should come as no surprise.

The wealthy have a higher level of disposable income and therefore can afford to give more to charities.

A critical element of the charitable contribution deduction is that it is an itemized deduction. So, in order for any taxpayer to take advantage of this deduction they must itemize their deductions rather than taking the standard deduction. The less wealthy taxpayers, which often are comprised of younger taxpayers and the elderly, are less likely to itemize their deductions and therefore are less likely to receive any kind of benefit from the charitable contribution deduction. The elderly have another route available to them which allows them to still take advantage of this deduction. A requirement exists that forces one to take some money out of an individual retirement account (IRA) or 401k once they reach the age of 70 years old, so that the government can collect the tax on it. However a rule exists that allows “an IRA owner, age 70½ or over, can directly transfer, tax-free, up to $100,000 per year to an eligible charity” (IR-2014-117). This is a substantial benefit to those aged 70 and over because this amount is never recorded in their adjusted gross income. This means that even if these taxpayers elect to take the standard deduction, they will still receive the benefit that comes with donating. This is a powerful tool for a group of taxpayers that normally may not receive the benefit of this deduction.

Within the Mitchell (2012) article there is a counter opinion written by Diana Aviv that supports the continuation of the charitable contribution as is. The focus of her portion of the article is that those who oppose deduction argue that it does not do much to alter giving practices and that this is not the case at all. Her argument is that those who donate to charity do need the deduction and that without this deduction, a large supply of funds that charities need would dry up. According to the article (Mitchell, 2012), "more than 80% of those who itemized their tax returns in 2009 claimed the charitable deduction and were responsible for more than 76% of all individual contributions to charitable organizations." This is a substantial statistic. This shows that the charitable contribution deduction does in fact encourage individual taxpayers to give to charity. Along with the statistics saying that this deduction helps charities, the taxpayers also, of course, are very much for continuing it. Aviv mentions in the article (Mitchell, 2012) that "according to a 2010 Indiana University survey, more than two-thirds of high-net-worth donors said they would decrease their giving if they did not receive a deduction for donations." The article (Mitchell, 2012) also mentions that "if there were no deduction at all, some experts predict giving would decrease by as much as $78 billion per year." This decrease of $78 billion is out of approximately $218 billion donated in 2011, which would constitute a decrease in charitable giving of individual taxpayers of almost 36%. Another of Ms. Aviv's major points in the article is to refute the notion that giving requires a sacrifice from wealthy families that can afford to do so. Aviv points out (Mitchell, 2012) that "the deduction is not about who benefits from giving, it is about who benefits from support—charities and people who rely on their services." The focus of giving to charity should not be on who gets the tax benefits from giving, but rather who is benefiting from all the services that these charities provide. As seen by the different thresholds established for public charities (generally limited to 50% of AGI) and private foundations (generally limited to 30% of AGI), the

IRS and the government have decided that donating to public charities is more important than donating to private foundations and are giving a larger incentive to taxpayers to support them.

Results

The key of the debate between whether to keep the charitable contribution deduction as is or to change or eliminate it is this: does it help? Does it help those giving to charities? Does it help the charitable organizations donated to? According to the data in Appendix A at the end of the document, those who earn between \$100,000 and \$200,000 get 23% of the benefit of the charitable contribution deduction, and those who earn between \$200,000 and \$500,000 receive nearly 25% of the benefit. This means that nearly half (48%) of the charitable contribution benefit is solely for the benefit of those that would be considered high income households. The same data shows that those who make \$10,000 to \$50,000 only account for 1% of the benefit, further showing that the wealthy are the only taxpayers benefiting from this deduction. Looking at whether or not the deduction is helping charities or not is another story entirely. According to the table listed as Appendix B individual taxpayers made up 72% of total charitable contributions in 2012. I have already discussed what impact there could be to the income of charitable organizations if the deduction were to be taken away. Corporations also donate to charities (6% of total contributions in 2012) to gain the tax benefit and they have more money available to them than most taxpayers do. The charitable contribution deduction is a major source of income to charities and without it the potential 36% decrease in donating that was mentioned earlier could adversely affect many charities and many people who rely on those charities for help.

<u>Excise Taxes</u>

Rule

Excise taxes are considered to be taxes on events, normally being the purchase of some certain product. Generally, the targets of such a tax are products or activities that are deemed unhealthy or immoral. Often these excise taxes are levied on things such as gasoline, gambling, alcohol, and tobacco products, to name a few. In particular, excise taxes on tobacco products and alcohol are what I am going to be focusing on; the so-called "sin tax" or selective consumption tax. In the United States, the Internal Revenue Code places minimum and maximum amounts of excise tax that can be imposed on various items, depending on size and/or volume. For example, IRC §5702(b) defines a cigarette as "any roll of tobacco wrapped in paper or in any substance not containing tobacco, and…is likely to be offered to, or purchased by, consumers as a cigarette." The IRC (IRC §5701(b)) splits cigarettes into two (2) categories based on weight, whether the cigarette is above or below three pounds (3 lbs.) per thousand. According to IRC §5701(b), small cigarettes (weight of less than 3 lbs. per thousand) will be taxed at $50.33 per thousand, while large cigarettes (greater than 3 lbs. per thousand) should be taxed at $105.69, unless they otherwise qualify as small cigarettes. The IRC lays out rates of tax for cigars, rolling papers, smokeless tobacco, etc. in this same way. Looking more at alcohol, the tax rates are imposed based on gallonage as opposed to imposed based on weight. For beer, the tax rate is $18.00 per barrel, as long as that barrel does not contain more than 31 gallons, and proportionally for every fraction of a barrel (IRC §5051 (a)(1)).

Moral Behavior

The United States was originally founded by Puritans, and this is most evident in the government's treatment of drugs and alcohol. Recall that the 18th Amendment to the Constitution placed a prohibition on alcohol altogether, which was repealed by the 21st Amendment 13 years later. So, the government decided that if prohibiting products like these was not viable, they would levy taxes on them instead. However, just as with the charitable contribution deduction, there are competing viewpoints as to whether the sin tax is a good thing, or a bad thing. A study done by the Meractus Center of George Mason University (written by Adam Hoffer, et.al) in March of 2015 looked into this very topic. This study compared some of the motivation behind the selective consumption tax as well as some of the drawbacks. The leading reason for selective consumption tax is, of course, that consumers are less likely to buy something if it is specially taxed and costs more than either a substitute or not consuming the item at all. The sin tax is a way for the government to try and steer the citizens of the United States away from the products and activities that have the tax levied on them, to make society healthier and more socially acceptable. Attempting to break people of these habits is seen as a noble goal by those in favor of such a tax, especially with drug and alcohol addictions becoming such a hot topic around the country. A popular view held by those in favor of sin taxes is that these taxes are only imposed to right the social and environmental wrongs done by those who partake in the taxed activities. In an article about the Meractus study, written by Peter Fricke (2015), this sentiment is expressed by saying "consumers who do not adjust their behavior in response to sin taxes are at least forced to help pay for the consequences of their behavior, further mitigating the social cost." This means that since those who smoke, for example, are more likely to get lung cancer they should be required to pay more tax to make up for the higher chance of needing assistance through some government-funded program.

Of course, the article also delves into some of the problems with the selective consumption tax. The Meractus study (Hoffer, 2015) split the observed shortcomings of the sin tax into three (3) general categories, these include: "(a) selective taxes do very little to curb consumption or improve health outcomes by, for example, reducing obesity rates; (b) granting government the power to selectively tax products reduces the welfare of consumers and producers; and (c) the burden of selective consumption taxes is not trivial and falls most heavily on low-income households" In regards to (a) above, the main reason the selective consumption tax does not change consumption levels is simply due to demand for these products (tobacco products in particular) is relatively inelastic. If an individual has a tobacco addiction, then he or she is not likely to quit simply because the price went up some. He or she may change brands to something cheaper, but quitting entirely only due to price change is not likely. Item (b) above simply states that it is a slippery slope, meaning if we allow the government to tax selective products only because it chooses to where will it stop? Will the government start taxing more and more products? Producers and the economy can be substantially damaged if the government were to suddenly impose a tax on a major revenue source. If, for example, the government were to impose a tax on producing and purchasing video games because it found them to be correlated to increased violence in youth then video game producers would take a big hit due to sales dropping because of increased costs. Also, regarding item (c) above, consumers could be negatively affected if such taxes are imposed on them, especially if these taxes are controversial, such as some of the soft drink and trans fat regulations recently put in place in the state of New York. The primary focus of the Meractus study was mainly dealing with item (c) in the above list. Many selective consumption taxes seem to be regressive, meaning that they do more harm than good in the end. Since demand for many excised products is inelastic, a slight change in price will not stop consumers from purchasing the item. As the study (Hoffer, 2015) suggests, “Many consumers of those goods will continue to buy them (in modestly smaller quantities) rather than switch to substitutes. Such persistence in consumption means that the chief consequence of a selective tax is to reduce households’ discretionary budgets.” Appendix C at the end of the report helps to reinforce the idea that low income households are hurt more by the sin tax on tobacco products than anyone.

Results

The biggest question to ask when considering excise taxes is this: are they working? According to Appendix D the amount of taxes collected on the sale of tobacco products has been decreasing from 2010 to 2012. Likewise, excise tax collected from beer decreased from 2008 to 2012, leading me to believe that the tax on such products is effectively stopping people from purchasing them. Conversely, Appendix D also shows that the amount of tax collected from distilled spirits and wine has been increasing since 2009, meaning that these products are less affected by the excise tax than products like beer and tobacco products. Clearly the excise tax is working for certain products, during my time working in a Circle K convenience store I can't even count the number of times I heard customers say, jokingly or not, that it was time to quit smoking due to the increasing prices of cigarettes. This is just one display of how excise taxes are doing exactly what Congress and the IRS intend them to do, and I believe that they are necessary and beneficial to the country as a whole.

§179 Deductions

Rule

The Internal Revenue Code allows for an immediate write-off of up to $250,000 on equipment purchased for a business purpose under IRC §179. This value used to be much higher, since for tax years 2010 through 2014 the allowed cost was up to $500,000, and from 2007 through 2009 before that was once again $250,000. There are a few criteria that must be met before one can deduct this amount under §179, these requirements include: being eligible property, acquired for a business purpose, must have been purchased, cannot be otherwise ineligible property.

In order to qualify for the deduction under IRC §179, the property must first be eligible. There are six (6) categories that property can fall under to be deemed eligible for the deduction. IRS publication 946 (2014) describes the categories laid out in IRC §179(d)(1):

1. Tangible personal property
2. Other tangible property, as long as it is used for manufacturing, production, or extraction of raw materials and/or storage of these as well
3. Agricultural or horticultural structures
4. Storage facilities used in the petroleum industry

5. Off-the-shelf computer software (placed in service before 2015)
6. Qualified real property

In this context, tangible personal property is defined to be machinery, equipment, livestock, and removable fixtures; basically anything that is not real property. Certain types of real property can qualify for the §179 deduction. Generally the three types of real property that can qualify are leasehold improvement property, restaurant property, and retail improvement property.

Another criteria for property to qualify under IRC §179, is that it must be used for a business purpose. In this context, investment property, property that generates royalties, and rental property (provided renting property is not your principal business) do not qualify under IRC §179. If the property is used partially for business use and partially for non-business use, it may still be possible to take the deduction. As long as the property in question is being used more than 50% for business use, the taxpayer is allowed to multiply the cost by whatever percentage it is used for business and take the calculated amount as the §179 deduction.

The third characteristic that a property must have before it can be deducted under IRC §179 is that it must have been acquired by purchase, receiving property through gift or inheritance would not qualify (IRC §179). Receipt also does not count as by purchase if passed from one member of a controlled group to another member of the same group, the property has its adjusted basis determined by basis in the hands of its previous owner or if the basis was stepped-up because it was received from a decedent, or if the property was acquired from a related person (IRC §179).

The final requirement for property to qualify under §179 is that it must not be otherwise ineligible property. However, what property is otherwise ineligible? Land and any improvements made to land cannot be expensed under IRC §179. Also, air conditioning and heating units, property used for lodging, property mostly used outside the United States, property used by tax-exempt organizations, and property used by governmental units do not qualify for the depreciation deduction under IRC §179. Even if property passes all of the above requirements, there are still some limits as to how much can be taken, that I am not going to dive into. Suffice it to say that the government likes its money and will not part with it easily.

Moral Behavior

The way in which the IRC §179 deductions can drive decision making is not nearly as clear is it was with the charitable contribution deduction or the selective consumption tax, but it is a major method of encouraging certain behavior. The primary focus of the §179 deduction is to encourage manufacturers, farmers, and small businesses to buy new equipment and to constantly upgrade their machinery, leading to faster and more efficient production. The financial difficulties that stemmed from the recession of 2007 are what lead to the spike in the allowed depreciation amount that was mentioned before. Recall that the $250,000 limit was imposed in 2007, with the $500,000 limit taking effect in 2010. Congress increased the allowed §179 deduction in order to help struggling farmers and manufacturers stay in business. Many individuals and businesses were fearful of spending money due to the failing economy and the increase in allowable §179 deduction amount encouraged taxpayers to invest in new equipment, to help the economy improve. Congress took some heat this past year, though, as it allowed the spike in the allowed amount to expire, dropping the allowable §179 deduction back down to $25,000 before being retroactively raised to $500,000 (Chow, 2015). Alice Rice wrote an article in 2014 in which she dove into whether or not Congress would extend the §179 deduction increase even after it expired to help farmers. The article (Rice, 2014) described how "farmers have been trained to think of equipment purchases—new or used—as a way to minimize taxes." Many farmers were unhappy about the lack of the extension, due to the fact that the farming industry has been in decline for years already, and that a $25,000 deduction "doesn't account for a sneeze on a $450,000 [piece of farm equipment]." Machinery companies are facing the same problem, since they produce the equipment that farmers use and aren't buying because of the low §179 deduction limit. According to Rice (2014), "Deere and Co. laid off hundreds of workers, citing slowing demand for its agricultural machinery." Based on the facts laid out by Rice, it is much easier to see how the §179 deduction drives mostly farmers and manufacturing companies to keep their machinery updated. Michael Chow (2015) argues for the extension of the $500,000 limit that was in place until 2013, to make it effective indefinitely.

Results

According data taken from the Chow (2015) article, and displayed in Appendix E, the average amount of §179 deductions taken in the US from 2007-2009 was $46.2 billion. The allowable amount was increased in 2010, and the average increases for the years 2010 through 2012 to almost $53 billion, peaking at $64.4 billion in 2012. This shows that business owners (small business owners and farmers in particular) are more likely to buy more machinery with the increased deduction. As Chow (2015) says, “Such a large increase in Section 179 deductions taken reflect a meaningful amount of additional investment spending in the economy on qualified assets.” These numbers help show how effective this particular tax benefit has been to the economy, and how it can effectively affect decisions of business owners.

First-Time Homebuyer Credit

Rule

Another method that Congress and the IRS used to help guide social behavior was during the recent recession that began in 2007, when the first-time homebuyer credit was installed. This credit essentially gave those buying a home for the first time in 2008, 2009, or 2012 a credit off of their taxes, to be repaid in the future for some classes of taxpayer, and that does not need to be repaid for others. The general rule involving the first-time homebuyer credit according to IRC §36(a) is that “in the case of an individual who is a first-time homebuyer of a principal residence in the United States during a taxable year, there shall be allowed as a credit against the tax imposed by this subtitle for such taxable year an amount equal to 10 percent of the purchase price of the residence.” In order to be considered a first-time homebuyer, the taxpayer would not have owned a home within three (3) years before the purchase of the home. This first home also must have been purchased by the taxpayer. In order to be considered a purchase in this case, the property must not be from a related person or if the basis was calculated in a special manner. If the home was built by the taxpayer in the taxable year, then it is considered to be purchased as of the date it is first occupied (IRC §36(c)(3)(b)).

For homes purchased in tax year 2008 the government required this credit to be repaid by the taxpayer over 15 years; however that requirement was eliminated beginning in 2009. The amount to be repaid by the taxpayer (or not repaid if it is allowed) is defined mostly based on when the home was purchased. The general rule is that the tax credit is equal to 10% of the purchase price, up to $8,000.00. If the home was purchased in 2008 the credit is essentially an interest-free loan, with the limit being $7,500 instead. If purchased in 2009 the credit is worth the full $8,000 and does not need to be repaid, as long as the taxpayer is a first-time homebuyer (IRC §36(b)(1)(a)).

Moral Behavior

The first-time homebuyer credit was the government and the IRS's way of encouraging people to buy homes in a troubled recessionary economy from 2007-2010. Since the housing market crashed in late 2007 there were very few people who could afford to or wanted to buy homes in the United States. If no one bought houses then the housing market would continue to fall in a downward spiral. In order to combat this Congress and the IRS developed the first-time homebuyer credit in order to get people to purchase homes and somewhat stabilize the housing market. The government continued to evolve this credit through the years and it became more effective as time went on. For example, according to IRS data books listed as Appendix F, in 2009 there was $3.58 billion worth of first-time homebuyer credits taken. That number significantly increased in 2010 (the last year for the credit) to $15.64 billion. This is one display of how the credit increased the number of homes being purchased from year to year. In just the state of Ohio, this trend is also followed, with $103.4 million worth of credits taken in 2009, and almost $550 million worth in 2010. This increase is evidence that the first-time homebuyer credit was successful in getting people to purchase homes in these years. The first-time homebuyer credit appears to be a valuable tool that could potentially be used in the future if the housing market is in danger once again. It may not provide a large relief, as an $8,000 credit on a $200,000 home is not a large amount at only 4% of the cost, but any discount or credit is often enough to motivate those who are unsure about buying a home to go ahead and make the purchase.

Soil, Water, and Endangered Species Conservation Expenses

Rule

The general rule as defined by IRC §175(a) is that "a taxpayer engaged in the business of farming may treat expenditures which are paid or incurred by him during the taxable year for the purpose of soil or water conservation in respect of land used in farming, or for the prevention of erosion of land used in farming, or for endangered species recovery…as a deduction." In order to qualify for the above expenses to count as a deduction, there are some criteria that must be met. First, the taxpayer claiming these deductions must be in the business of farming. IRS Publication 225 clarifies IRC §175(c)(2), and defines being in the business of farming as "if you cultivate, operate, or manage a farm for profit, either as an owner or a tenant." If one is engaged in farming for pleasure, or if just engaged in growing trees for timber then you would not qualify as being in the business of farming as far as the soil and water conservation expenditures deduction goes. Also, the IRS Publication 225 interprets IRC §175 and defines exactly what a farm for this purpose: “A farm includes livestock, dairy, poultry, fish, fruit, and truck farms. It also includes plantations, ranches, ranges, and orchards…a plant nursery is a farm for purposes of deducting soil and water conservation expenses.” Also, dealing with rental farms, a taxpayer is considered in the business of farming if he or she receives rental payments (in cash or shares of the crop) based on farm production. If the taxpayer gets a set rental payment independent of production, then they are only considered in the business of farming if they materially participate in the farm. To go along with being in the business of farming, the taxpayer also must follow one of three (3) plans that were approved by the Natural Resources Conservation Service of the Department of Agriculture (“NRCS”). These plans include individual site plans, county plans, and state agency plans (IRS P225, 2014).

Once the taxpayer is sure he or she conforms to an appropriate NRCS plan, and once he or she makes sure he or she is considered to be in the business of farming, then it is time to look at just what expenditures are considered to be deductible. In general, they are broken up into four (4) general categories as described by IRC §175(c)(1):

1. Treatment or movement of earth (such as irrigation, terracing, etc.)
2. Construction, control, and protection of things such as drainage ditches, dams, ponds, etc.
3. Clearing of brush
4. Planting of windbreaks

Moral Behavior

The reasoning behind this deduction from the viewpoint of driving taxpayers' decisions is slightly different from some of the others we have looked at. These expenses to farmers are somewhat like general business expenses would be to most other businesses, but with a few different qualities. Many of the activities described in IRC §175 are not ones that would normally be required of a farmer. Rather than helping to conserve water or soil, or preserve the habitats of endangered species, a farmer could simply do their work without giving a thought to any of these things, but that would not be to the farmer's best interest. Pimentel (1995) shows just how dangerous erosion of the soil can be, saying that "Each year 75 billion metric tons of soil are removed from the land by wind and water erosion, with most coming from agricultural land…the loss of soil degrades arable land and eventually renders it unproductive." With farming struggling in recent years, farmers cannot afford to lose the productivity of their land. The article goes on to say that "In the last 200 years of US farming, an estimated [30%] of farmland has been abandoned because of erosion, salinization, and waterlogging" (Pimentel, 1995).

The soil and water conservation expenses deduction is the IRS's way of encouraging farmers to go a little bit out of their way to help the environment, and rewarding them for doing so. Allowing these expenses to be deducted is one way of maintaining the food supply that is needed for the country. Since "crop yields on severely eroded soil are lower than those on protected soils" (Pimentel, 1995), it would be a major blow to food production in the United States if farmers allowed large portions of their farms to degrade due to erosion. Erosion can wither away the organic matter that is required for crops to grow optimally. This would greatly hinder the efficiency of farms, since organic matter "improves soil structure, water infiltration, and ultimately overall productivity" (Pimentel, 1995). The allowance of the soil, water, and endangered species conservation expense deduction is the government's way of encouraging farmers to take care of their farms to maintain or improve upon current levels of food production.

Conclusion

After looking into these five (5) different rules of tax law, it is apparent that although generating revenue for the government is the largest and most important role of taxes, it is certainly not the only reason for them. Many deductions such as the charitable contribution deduction, §179 depreciation deduction, and the first-time homebuyer credit are in place to help stimulate the economy and drive funds to places they may not be going to otherwise. Other aspects of tax law, such as the selective consumption tax, are in place to attempt to deter United States citizens from partaking in actions or products that are viewed as immoral or unhealthy.

One of the big questions that we, as a country, must ask ourselves is this: do we want the government to be regulating or morality, even indirectly in ways such as these? G. Marcus Cole (2008) believes that "The idea that government is a proper source of moral guidance is, in fact, a relatively young idea in human history. It has not always been part of American culture or law." Cole (2008) goes as far as to say that "if those who seek virtue look to government to promote it in others, they are likely to be disappointed." Cole also describes the problem with the government regulating morality through the viewpoint of his Christian beliefs, saying "As a Christian, I believe that we cannot, through [government]…compel the ultimate choice between good and evil, between salvation and damnation. This is the very choice for which our Creator gave us free will" (Cole, 2008). As a Christian myself, I agree with the point that Cole is trying to make in this article. However, I would say that I am a little less strict about it than he is. I believe that it is up to every one of us what we believe to be good and evil, or right or wrong. I fully believe that the government has no right to determine this for us, but I also think that benefits or punishments for different behaviors are not entirely a bad thing. One does not have to donate to charity simply because there is a deduction available for doing so. Likewise, anyone (of legal age) is free to smoke cigarettes and drink alcohol even though there are added taxes on them. If the government were to force one to do or not do any of these things through legislation or some other regulation then I would have a problem with it. I believe that there is nothing wrong with the government displaying its collective beliefs and encouraging people to think along the same lines, since the government itself is the collective of American society. This is the same thing that any of us as individuals do when we have any type of moral discussion; we try to get others to see our point of view and agree with it. The government doing this as well is no different, but there is an important distinction between encouraging behavior and mandating it. As long as we as informed citizens can recognize this distinction and make sure the government does not overstep its bounds in this regard I believe there is nothing wrong with regulations such as the charitable contribution deduction, excise taxes, and all others, both discussed in this paper and those not covered.

Appendix A

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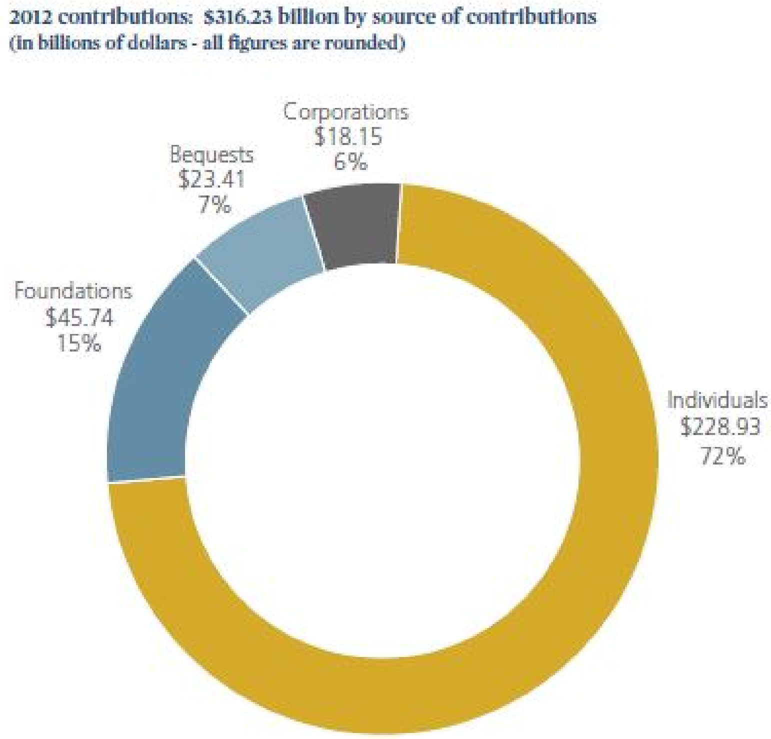
Table T13-0256
Tax Benefit of the Deduction for Charitable Contributions
Baseline: Current Law
Distribution of Federal Tax Change by Expanded Cash Income Level, 2015[1]
Detail Table

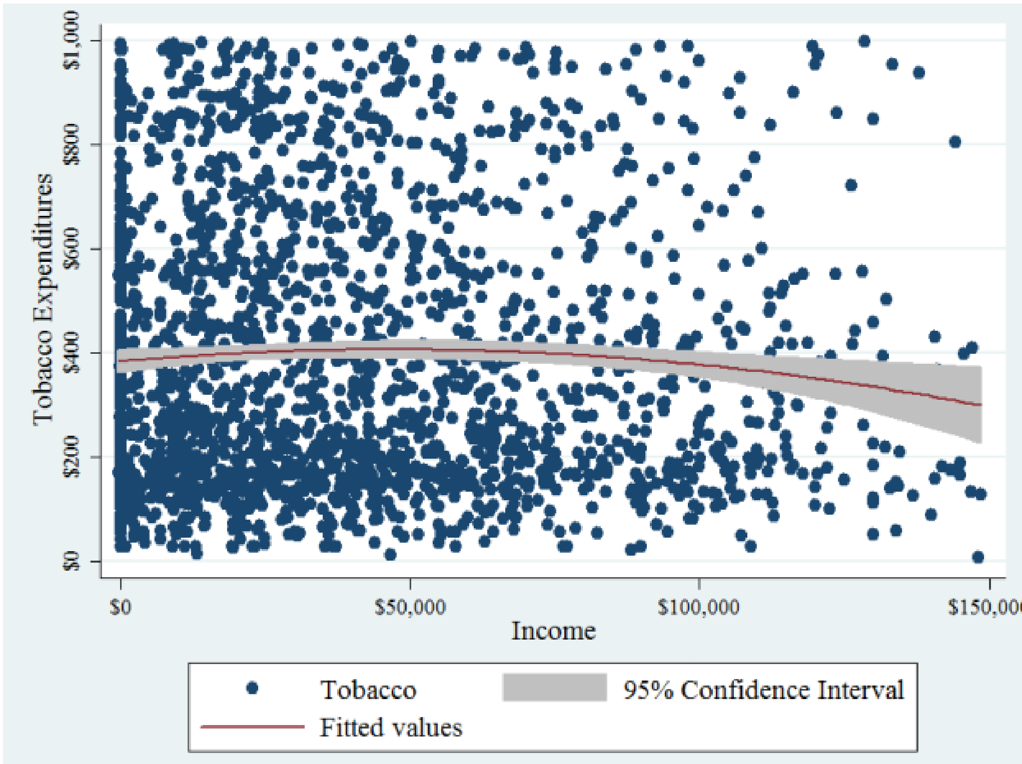
Expanded Cash Income Level (thousands of 2013 dollars)[2]	Percent of Tax Units[3]		Benefit as a Percent of After-Tax Income[4]	Share of Total Benefit	Average Benefit		Share of Federal Taxes		Average Federal Tax Rate[6]	
	With Benefit	Without Benefit			Dollars	Percent of Federal Taxes	With Provision	Without Provision	With Provision	Without Provision
Less than 10	0.0	100.0	0.0	0.0	0	0.0	0.1	0.1	4.4	4.4
10-20	0.6	99.5	0.0	0.0	1	0.2	0.3	0.3	2.4	2.4
20-30	2.5	97.5	0.0	0.1	4	0.3	0.9	0.9	5.0	5.0
30-40	5.0	95.0	0.0	0.3	9	0.3	1.6	1.6	7.9	8.0
40-50	9.5	90.5	0.1	0.6	22	0.5	2.2	2.2	10.4	10.5
50-75	22.0	78.0	0.1	3.4	72	0.8	7.6	7.5	13.8	13.9
75-100	37.0	63.0	0.2	5.2	171	1.2	8.0	7.9	16.0	16.2
100-200	62.2	37.8	0.4	23.0	420	1.5	26.2	26.1	18.4	18.6
200-500	87.1	12.9	0.7	24.7	1,487	2.2	20.3	20.4	22.6	23.1
500-1,000	91.0	9.1	0.9	8.9	4,343	2.2	7.4	7.4	28.2	28.8
More than 1,000	89.9	10.1	1.3	33.8	27,949	2.4	25.2	25.4	34.9	35.7
All	25.1	74.9	0.5	100.0	321	1.8	100.0	100.0	19.7	20.0

Appendix B



Source: Charitable Giving in America: Some Facts and Figures. (2012)

Appendix C



Source: Bureau of Labor Statistics Consumer Expenditure Surveys for 2009–2012.

Appendix D

Table 20. Federal Excise Taxes Reported to or Collected by the Internal Revenue Service, Alcohol and Tobacco Tax and Trade Bureau, and Customs Service, by Type of Excise Tax, Fiscal Years 1999-2013

[Money amounts are in thousands of dollars]

Type of excise tax by agency to which tax was reported or paid	2007	2008	2009 [13]	2010	2011	2012	2013
	(15)	(21)	(26)	(27)	(28)	(29)	(30)
Total excise tax collections	**71,310,000**	**69,117,000**	**70,740,000**	**74,730,000**	**76,590,000**	**83,559,000**	**88,042,000**
Total excise tax collections	**53,049,612**	**51,671,463**	**46,599,189**	**47,153,902**	**47,436,116**	**58,761,272**	**60,412,911**
Distilled spirits:							
Domestic	3,444,063	3,558,551	3,564,486	3,667,378	3,779,850	4,004,269	4,053,927
Imported	1,284,421	1,281,212	1,235,572	1,256,760	1,403,099	1,414,452	1,406,979
Wine:							
Domestic	589,205	610,235	609,060	621,337	684,750	700,018	697,995
Imported	284,837	270,784	289,990	300,167	298,890	336,264	328,537
Beer:							
Domestic	3,198,146	3,252,173	3,250,164	3,186,200	3,126,091	3,148,044	3,097,145
Imported	546,833	526,771	492,221	464,648	526,306	516,314	443,737
Tobacco products: [12]							
Domestic [12]	7,194,012	6,851,714	11,548,854	15,913,566	15,518,459	15,005,872	14,323,320
Cigarettes [12]	6,924,510	6,578,421	11,004,712	14,882,613	14,535,776	14,057,799	13,583,138
Cigars [12]	204,135	217,491	479,866	708,205	664,318	554,846	424,438
Papers/tubes [12]	55	36	160	1,934	4,918	6,613	6,015
Chewing tobacco and snuff [12]	58,404	61,061	111,300	163,422	167,545	171,782	179,352
Pipe/roll-your-own tobacco [12]	22,148	25,598	158,096	211,874	216,652	219,493	193,320
Floor stocks	0	0	1,192,377	8,558	5,220	5,942	1,522
Imported	337,060	301,330	442,729	700,507	627,029	733,077	758,397

Source: SOI Tax Stats – Historical Table 20 (2014)

Appendix E

Table 2: Aggregate Section 179 Deductions Taken and Business Income Limitations, 2003-2012

Year	Section 179 Deductions ($Billions)	Business Income Limitations ($Billions)
2003	$36.6B	$279.3B
2004	$39.7B	$299.8B
2005	$41.3B	$319.6B
2006	$44.8B	$348.7B
2007	$47.5B	$384.8B
2008	$49.8B	$516.5B
2009	$41.3B	$497.7B
2010	$49.6B	$696.1B
2011	$44.8B	$555.2B
2012	$64.4B	$694.6B

Source: IRS Statistics of Income Division

Appendix F

First-Time Homebuyer Tax Credit for Homes Purchased in 2009, by State, Fiscal Year 2009 [1]

[Money amounts are in thousands of dollars.]

State	First-time homebuyer tax credit	
	Number	Amount
United States, total	**479,622**	**3,582,591**
Alabama	8,660	64,796
Alaska	653	4,964
Arizona	13,399	101,876
Arkansas	5,334	39,030
California	58,179	442,999
Colorado	8,616	65,578
Connecticut	2,979	22,347
Delaware	1,268	9,464
District of Columbia	635	4,702
Florida	45,992	350,871
Georgia	18,949	141,056
Hawaii	720	5,389
Idaho	3,356	25,739
Illinois	15,580	115,418
Indiana	9,452	68,556
Iowa	5,709	41,444
Kansas	4,886	35,892
Kentucky	5,959	44,015
Louisiana	8,574	62,361
Maine	1,409	10,415
Maryland	6,871	51,370
Massachusetts	6,339	46,962
Michigan	22,432	157,332
Minnesota	10,341	76,707
Mississippi	6,108	44,818
Missouri	9,950	72,892
Montana	1,485	11,172
Nebraska	4,085	30,405
Nevada	7,150	54,829
New Hampshire	1,475	11,018
New Jersey	7,734	57,153
New Mexico	2,177	16,461
New York	11,827	86,391
North Carolina	13,632	103,222
North Dakota	1,029	7,568
Ohio	14,428	103,363
Oklahoma	6,678	49,316
Oregon	4,802	36,743
Pennsylvania	15,831	117,053
Rhode Island	1,295	9,632
South Carolina	7,215	54,031
South Dakota	1,238	9,287
Tennessee	14,962	112,537
Texas	42,436	318,813
Utah	5,916	46,256
Vermont	505	3,743
Virginia	12,516	95,032
Washington	8,517	64,882
West Virginia	1,253	9,018
Wisconsin	7,889	58,486
Wyoming	914	6,983
U.S. Armed Service members overseas	252	1,983
Other	31	220

Table A. First-Time Homebuyer Credit by State, Fiscal Year 2010 [1]
[Money amounts are in thousands of dollars.]

State	First-Time Homebuyer Credit	
	Number	Amount
United States, total	**2,197,110**	**15,642,149**
Alabama	33,854	236,365
Alaska	5,613	41,212
Arizona	59,267	432,945
Arkansas	23,452	159,598
California	245,298	1,821,511
Colorado	46,214	340,175
Connecticut	22,007	160,785
Delaware	6,252	45,347
District of Columbia	4,128	30,165
Florida	128,246	911,108
Georgia	68,238	489,877
Hawaii	6,103	45,220
Idaho	14,861	109,432
Illinois	83,281	585,878
Indiana	52,599	357,595
Iowa	28,189	192,014
Kansas	23,731	161,635
Kentucky	31,557	220,043
Louisiana	29,714	208,696
Maine	9,534	67,022
Maryland	40,093	295,573
Massachusetts	41,351	301,919
Michigan	75,394	459,758
Minnesota	47,663	341,497
Mississippi	17,154	114,429
Missouri	48,797	340,483
Montana	8,071	56,146
Nebraska	17,720	124,215
Nevada	29,780	220,708
New Hampshire	9,506	67,822
New Jersey	50,107	360,947
New Mexico	14,991	107,600
New York	89,101	625,737
North Carolina	66,971	488,867
North Dakota	6,817	46,455
Ohio	81,137	549,974
Oklahoma	33,239	228,277
Oregon	27,495	200,840
Pennsylvania	85,742	599,464
Rhode Island	7,195	52,952
South Carolina	32,622	231,818
South Dakota	7,505	51,971
Tennessee	47,814	343,027
Texas	186,382	1,337,904
Utah	24,744	187,268
Vermont	3,944	27,884
Virginia	62,325	460,748
Washington	51,424	381,716
West Virginia	11,089	73,741
Wisconsin	42,277	298,736
Wyoming	5,385	38,665
U.S. Armed Service members overseas	956	7,191
Other	181	1,194

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26 USC §170(c)

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26 USC §5701(b)

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